

## **Sales Taxes on Association Gas & Electric Bills**

By Tom Weidner, MBA, CPA

Does your Homeowner Association pay more sales tax on its gas and electric bills than is required?

Gas and electricity sold for residential use are both exempt from state, regional transportation district / cultural and scientific facilities district / metropolitan baseball district (RTD/CD/BD), and certain local sales taxes under Colorado law. It is fairly common for Associations to be paying these taxes. The savings from eliminating such excess sales taxes can be significant – the largest I've identified this year was an annual reduction in sales taxes of \$1,400.

The process of verifying that your Association's sales taxes are minimized is not difficult:

### **Step 1.**

Ask your manager or accountant for a copy of the latest gas and electric bills paid by your Association.

### **Step 2.**

In the bill you will find either a total sales tax rate, or a list of the various components of your sales taxes and their rates, or just a sales tax dollar amount. Compute the total sales tax rate if it's not shown. If it is higher than your local (city plus county) sales tax rate, you are probably paying excess sales taxes. The only sales taxes that should be charged on Association gas and electric bills are city sales taxes from Home Rule cities and county sales taxes.

An example: If your Association is in Denver your total sales tax rate on gas and electric bills should be 3.5%. (Denver is a Home Rule city and is thus empowered to collect sales taxes on these bills.) But your sales tax rate might also (improperly) include state sales taxes (3.0%) and the RTD/CD/BD sales taxes (0.8%). Your total billed sales tax rate could thus be 7.3%. No matter what city or county you are in, Colorado's 3% sales taxes should never be charged on your gas or electric bills.

Get a copy of the Colorado tax publication "Sales Tax Exemption on Residential Usage" from the Colorado Department of Revenue (Sales Tax Office: 303 232 2416). It's just two pages long and provides a summary of the rules. Also ask for a "Sales Tax Exempt" certificate (Form DR 1260) and for a "Claim For Refund" certificate (Form DR 0137). Hopefully you will need these.

### **Step 3.**

Complete the sales tax exempt certificate and send it to the utility company. With the sales tax exempt certificate in hand, your utility can reduce the sales tax rates on your future invoices.

Next, consider completing the refund forms. A refund of up to three prior years' excess sales taxes can be obtained. The refund forms require some work. The refund forms should be submitted to the Colorado sales tax offices.

Completion of the above steps can pay dividends now and for the life of your Association. And once completed, your Association won't be one of those Associations that pays more sales taxes on its gas and electric bills than is required!